

# CARROLLTON BANK



September 20, 2006

Mr. Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation  
550 Seventeenth Street, N.W.  
Washington, D.C. 20429

RE: FDIC Insurance Assessments /FHLB Advances RIN 3064-AD09

Dear Mr. Feldman:

Carrollton Bank is pleased to provide comments in response to the FDIC notice of proposed rulemaking and request for comment on deposit insurance assessments. Specifically, we would like to address the FDIC's request for comment on the issue of whether Federal Home Loan Bank (FHLB) advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

We strongly believe that FHLB advances should not be characterized as "volatile liabilities" for FHLB members. FHLB advances are secured extensions of credit to members with pre-defined, understood, and predictable terms. Unlike customer deposits, FHLB advance liabilities do not increase or decrease due to circumstances outside the control of the FHLB member. Customer deposits, on the other hand, may be lost due to a variety of factors including, but not limited to: special, short-term promotions in a particular market or the existence of higher returns to depositors with alternative investments. While many large institutions can look to Wall Street capital markets for replacement of these liabilities, these same capital markets are not typically long-term, stable providers of wholesale funding to community banks that comprise the bulk of the membership of the Federal Home Loan Bank System.

The primary purpose of the FHLB System is to provide a source of liquidity for FHLB members. The FHLB system is comprised of more than 8,000 financial institutions. The FHLB's are a stable, reliable source of funds for member institutions, and the availability of such credit has a predictable, beneficial effect on members' business plans. It does not seem to make sense to include FHLB advances in the definition of volatile liabilities given the stability of the FHLB system, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans.

The continued availability of FHLB advances reduces the risk of failure of FDIC-insured institutions. Charging a higher deposit insurance premium to banks that use advances could discourage borrowing from the FHLB's and lead to the unintended effect of increasing risks to FHLB members. Financial institutions frequently use FHLB advances for liquidity purposes and to manage interest rate risk, as well as fund loan growth. In some of our markets, the supply of deposit funds is simply inadequate to meet loan demand. Curtailing the use of FHLB advances would force institutions to look to alternative, often more costly wholesale

funding sources that are actually volatile, thereby potentially reducing profitability while increasing liquidity risk.

A regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLB's. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and relevant FHLB are required by regulation to engage in a dialogue to ensure the institution has adequate liquidity while minimizing other risks, including losses to the FDIC. This cooperation between the FHLB's and member financial institutions has worked for many years. FHLB advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout the nation to remain competitive. FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have reliable access to liquidity. Penalizing financial institutions for their cooperative relationship with the FHLB's would unjustifiably limit their ability to offer competitive pricing, limit credit availability in the communities they serve, and limit their members use of a valuable liquidity source.

We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities or to impose a deposit insurance premium assessment on "secured liabilities."

Sincerely,

A handwritten signature in black ink, appearing to read "William G. O'Neil", written in a cursive style.

William G. O'Neil  
SVP/Chief Financial Officer